

## Department of Defense

## 232.072-3

partner, joint venturer, or proprietor, as appropriate—

- (i) Planned for the current year;
  - (ii) Paid during the past 2 years; and
  - (iii) Deferred to future periods.
- (5) Business base and forecast that—
- (i) Shows, by significant markets, existing contracts and outstanding offers, including those under negotiation; and
  - (ii) Is reconcilable to indirect cost rate projections.
- (6) Cash forecast for the duration of the contract (see 232.072-3).
- (7) Financing arrangement information that discloses—
- (i) Availability of cash to finance contract performance;
  - (ii) Contractor's exposure to financial crisis from creditor's demands;
  - (iii) Degree to which credit security provisions could conflict with Government title terms under contract financing;
  - (iv) Clearly stated confirmations of credit with no unacceptable qualifications;
  - (v) Unambiguous written agreement by a creditor if credit arrangements include deferred trade payments or creditor subordinations/repayment suspensions.
- (8) Statement of all state, local, and Federal tax accounts, including special mandatory contributions, e.g., environmental superfund.
- (9) Description and explanation of the financial effect of issues such as—
- (i) Leases, deferred purchase arrangements, or patent or royalty arrangements;
  - (ii) Insurance, when relevant to the contract;
  - (iii) Contemplated capital expenditures, changes in equity, or contractor debt load;
  - (iv) Pending claims either by or against the contractor;
  - (v) Contingent liabilities such as guarantees, litigation, environmental, or product liabilities;
  - (vi) Validity of accounts receivable and actual value of inventory, as assets; and
  - (vii) Status and aging of accounts payable.
- (10) Significant ratios such as—
- (i) Inventory to annual sales;
  - (ii) Inventory to current assets;
  - (iii) Liquid assets to current assets;

(iv) Liquid assets to current liabilities;

(v) Current assets to current liabilities; and

(vi) Net worth to net debt.

[63 FR 11535, Mar. 9, 1998]

### 232.072-3 Cash flow forecasts.

(a) A contractor must be able to sustain a sufficient cash flow to perform the contract. When there is doubt regarding the sufficiency of a contractor's cash flow, the contracting officer should require the contractor to submit a cash flow forecast covering the duration of the contract.

(b) A contractor's inability of refusal to prepare and provide cash flow forecasts or to reconcile actual cash flow with previous forecasts is a strong indicator of serious managerial deficiencies or potential contract cost or performance problems.

(c) Single or one-time cash flow forecasts are of limited forecasting power. As such, they should be limited to preaward survey situations. Reliability of cash flow forecasts can be established only by comparing a series of previous actual cash flows with the corresponding forecasts and examining the causes of any differences.

(d) Cash flow forecasts must—

(1) Show the origin and use of all material amounts of cash within the entire business unit responsible for contract performance, period by period, for the length of the contract (or until the risk of a cash crisis ends); and

(2) Provide an audit trail to the data and assumptions used to prepare it.

(e) Cash flow forecasts can be no more reliable than the assumptions on which they are based. Most important of these assumptions are—

(1) Estimated amounts and timing of purchases and payments for materials, parts, components, subassemblies, and services;

(2) Estimated amounts and timing of payments of purchase or production of capital assets, test facilities, and tooling;

(3) Amounts and timing of fixed cash charges such as debt installments, interest, rentals, taxes, and indirect costs;

(4) Estimated amounts and timing of payments for projected labor, both direct and indirect;

(5) Reasonableness of projected manufacturing and production schedules;

(6) Estimated amounts and timing of billings to customers (including progress payments), and customer payments;

(7) Estimated amounts and timing of cash receipts from lenders or other credit sources, and liquidation of loans; and

(8) Estimated amount and timing of cash receipt from other sources.

(f) The contracting officer should review the assumptions underlying the cash flow forecasts. In determining whether the assumptions are reasonable and realistic, the contracting officer should consult with—

(1) The contractor;

(2) Government personnel in the areas of finance, engineering, production, cost, and price analysis; or

(3) Prospective supply, subcontract, and loan or credit sources.

[63 FR 11536, Mar. 9, 1998]

### Subpart 232.1—Non-Commercial Item Purchase Financing

SOURCE: 63 FR 11536, Mar. 9, 1998, unless otherwise noted.

#### 232.102 Description of contract financing methods.

(e)(2) Progress payments based on percentage or stage of completion are authorized only for contracts for construction (as defined in FAR 36.102), shipbuilding, and ship conversion, alteration, or repair. However, percentage or state of completion methods of measuring contractor performance may be used for performance-based payments in accordance with FAR Subpart 32.10.

#### 232.102-70 Provisional delivery payments.

(a) The contracting officer may establish provisional delivery payments to pay contractors for the costs of supplies and services delivered to and accepted by the Government under the following contract actions if undefinitized:

(1) Letter contracts contemplating a fixed-price contract.

(2) Orders under basic ordering agreements.

(3) Spares provisioning documents annexed to contracts.

(4) Unpriced equitable adjustments on fixed-price contracts.

(5) Orders under indefinite-delivery contracts.

(b) Provisional delivery payments shall be—

(1) Used sparingly;

(2) Priced conservatively; and

(3) Reduced by liquidating previous progress payments in accordance with the Progress Payments clause.

(c) Provisional delivery payments shall not—

(1) Include profit;

(2) Exceed funds obligated for the undefinitized contract action; or

(3) Influence the definitized contract price.

#### 232.108 Financial consultation.

See 232.070 for offices to be consulted regarding financial matters with DoD.

#### 232.111 Contract clauses for non-commercial purchases.

(b) Use the clause at FAR 52.232-7, Payments under Time-and-Materials and Labor-Hour Contracts, with 252.232-7006, Alternate A, in solicitations and contracts when a time-and-materials or labor-hour contract is contemplated.

(i) Alternate A permits the administrative contracting officer (ACO) to withhold 5 percent of the amounts due until a reserve is set aside in an amount the ACO considers to be necessary, but not to exceed \$50,000, to protect the Government's interests.

(ii) Normally, there should be no need to withhold payment for a contractor with a record of timely submittal of the release discharging the Government from all liabilities, obligations, and claims.

(iii) If the ACO determines that it is necessary to withhold payment to protect the Government's interests, the ACO shall unilaterally issue a modification requiring the contractor to withhold 5 percent of amounts due, up to a maximum of \$50,000. The ACO shall ensure that the modification specifies